Ex-EDC head blasts Nortel aid

Lending money to firm 'violated' Crown corporation's mandate: Lavelle

BY KAREN HOWLETT
AND DAVE EBNER

Export Development Canada has come under fire from its former chairman for providing financial support totalling $750-million (U.S.) to **Nortel Networks Corp.** last year.

"It isn't the role of EDC to buck up private sector companies that have run into some financial problems," Patrick Lavelle, chairman of the agency from mid-1998 to December, 2001, said in an interview yesterday.

Mr. Lavelle said he also "strenuously" argued against having EDC provide Nortel with a proposed $500-million line of credit back in July, 2001, a period when the telecommunications company was in financial trouble.

EDC is a Crown corporation with a mandate to provide export financing to buyers of Canadian products and services.

Management at EDC wanted to provide Nortel with the line of credit because the company was a good client and a spectacular Canadian success story, he said. The financing needed board approval because of its size. Mr. Lavelle said he did not believe the agency should lend money to Nortel under the line of credit to help the company shore up its balance sheet. "I just felt the premise was wrong and the mandate of EDC was being violated."

He said he asked Pierre Pettigrew, federal trade minister at the time, to intervene and make the final ruling on EDC's mandate, but the minister declined to get involved.

Mr. Lavelle and one other director, Pierre MacDonald, head of the risk management committee of the board, voted against the financing. It won board approval after other directors voted in favour.

However, the line of credit was ultimately not extended to Nortel. Instead, EDC provided the company with bonding commitments totalling $750-million in February, 2003, another transaction that required board approval.

Mr. Lavelle said he would have voted against the bonding provision because something of that size is not an appropriate use of EDC's resources. It was "out of the ordinary for a government agency to take that kind of action," he said. "Again, this was done when there was no great assurance Nortel was going to survive."

EDC's involvement with Nortel is in the news because of the company's announcement this week that it will likely miss the March 30 deadline for filing its 2003 audited financial statements with U.S. regulators. Nortel is asking EDC to waive its rights to force the company to pay back commitments of $334-million under the bonding agreement because of the missed deadline. Nortel and EDC are still in discussions, spokeswomen for the two organizations said yesterday.

Mr. Lavelle, a corporate director of several companies including Algoma Steel, has become a vocal critic of Crown corporations since he left EDC. He has been particularly critical of EDC's large exposure to the aerospace and telecom sectors. At one time, 75 per cent of the agency's loans were to customers of two companies, Bombardier and Nortel. The exposure typically consisted of vendor finance loans to companies that bought equipment from the two companies.

Daniela Pizzuto, a spokeswoman at EDC, said yesterday that the agency has reduced its exposure to the aerospace and telecom sectors in recent years. At the end of 2003, the Crown corporation's exposure to the telecom sector — consisting of loans, guarantees and commitments — totalled $1.89-billion (Canadian), accounting for 8 per cent of total loans.

Ms. Pizzuto also said EDC's profits have climbed over the past couple of years, despite difficult markets. Profit rose to $158-million in 2003 from $122-million the year before. "I think the numbers speak for themselves," she said. Provisions set aside by EDC for possible loan losses, insurance claims and guarantees totalled $784-million, down 6.7 per cent from 2002. Impaired loans totalled $1.9-billion, down from $2.3-billion.

On the bonding commitments provided to Nortel, EDC would cause a domino effect with the company's lenders if it exercised its rights for an amount exceeding $100-million (U.S.). In such an event, a group of banks that have provided the company with an undrawn credit line of $750-million would then have the right to terminate that financing.

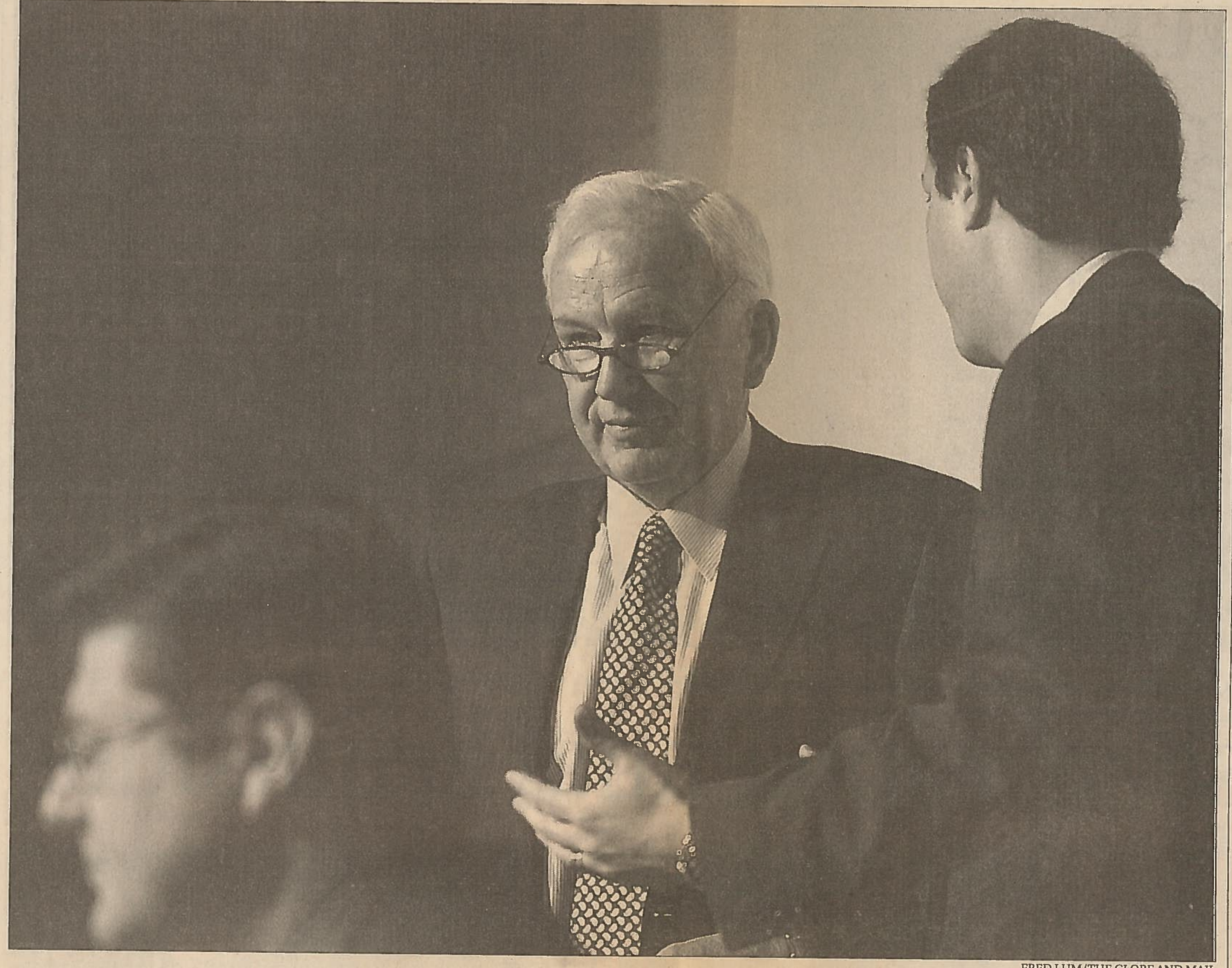
Many analysts have said Nortel's second restatement of its financial statements could be nominal. But Steven Levy of Lehman Brothers Inc. expressed concern in a report yesterday that the work of the independent investigation of the Nortel audit committee is not yet complete. He said it suggests "additional anomalies could be found and that anything is possible."

Credit rating agency Moody's Investors Service Inc. said "the potential exists" that Nortel will default on about $1.8-billion in debt obligations. "The uncertainty as to when the financials will be filed is something that is concerning," Moody's analyst Donald Carter said yesterday.

Nortel initially said in July, 2003, that it was going to reassess its financial statements from 2000 through mid-2003. In a U.S. regulatory filing last November, the company said its external auditors, Deloitte & Touche LLP, informed the audit committee of "material weaknesses in internal control." Nortel said it was not in compliance with established standards for monitoring and adjusting balances relating to some accruals and provisions, including restructuring charges.

Because of the delay in filing its year-end 2003 statements, Nortel said its auditors' assessment of whether the internal controls have been fixed has also been delayed.

The Ontario Securities Commission's corporate finance department has been "in communication" with Nortel since the company initially restated its numbers, OSC spokeswoman Wendy Dey said yesterday. "They're keeping us informed. Full details are not available at this time, but we're confident that co-operation with the [company] will continue."



FRED LUM/THE GLOBE AND MAIL

When he was chairman of Export Development Canada, Patrick Lavelle argued against the Crown corporation's financial support of Nortel.

Zucker again raises his stake in HBC

American investor Jerry Zucker increased his ownership in **Hudson's Bay Co.** yesterday to 16.8 per cent as the stock soared.

Shares in HBC closed up $1.09, or 8.6 per cent at $13.80.

Mr. Zucker's purchase of 2.75 million shares, or 4 per cent of the company's outstanding stock, was worth $37.7-million.

The move again fuelled speculation that he might be interested in an eventual takeover of the firm.

Through Maple Leaf Heritage In-

Judge won't intervene in pension fight

Air Canada, unions should negotiate own resolution to dispute, lawyers told

BY JOHN PARTRIDGE

The judge overseeing **Air Canada's** efforts to restructure has refused to intervene directly in a dispute over pensions that could derail the airline's efforts to emerge from bankruptcy protection.

Instead, Mr. Justice James Farley of Ontario Superior Court urged lawyers for Air Canada, its unions and its would-be major sharehold-

ver publisher announced it has signed Air Canada chief executive officer Robert Milton and Canadian author John Lawrence Reynolds to write a book to be published in September about Mr. Milton's experience running the airline.

Last month, Judge Farley ordered the unions, Air Canada and Trinity to negotiate an agreement on how to finance a $1.2-billion deficit in

million for a 31-per-cent stake in Air Canada if the unions refuse to accept at least the basic principle of a defined contribution plan.

Reached yesterday afternoon, Trinity director and adviser Sonny Gordon would not comment on Judge Farley's decision not to order talks, saying he was still awaiting a full report on the meeting.

Lawyers who attended the session said it is not clear what will happen next.

"It's like *High Noon*," said one, referring to the classic movie. "I don't know if someone is going to

comes back to Judge Farley to ask for an extension of the stay of legal proceedings against it that it has enjoyed since last April under the Companies' Creditors Arrangements Act. The stay expires March 31.

Before he grants the extension, Judge Farley will want to be convinced Trinity's agreement to invest in Air Canada "isn't floundering," he said.

On the publishing front, Douglas & McIntrye Publishing Group vice-president Susan McIntosh said Mr. Milton signed the book contract